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Author(s): BEN CLIFT AND JIM TOMLINSON

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Introduction : Tawney, Labour Thought, and the Third Way

R.H. Tawney (1880-1962) was arguably the most influential thinker on the British Left from the First World War down at least to the publication of Crosland's The Future of Socialism in 1956, and interest in his work revived from the 1980s.¹ His influence rested primarily on three works: The Acquisitive Society,² Equality,³ and Religion and the Rise of Capitalism⁴. But Tawney was not just an academic scribbler. He largely wrote the key Labour party document, Labour and the Nation, in 1928 (which was the major basis of Labour's election campaign in 1929), and much of For Socialism and Peace, (1934) a key party document of the 1930s and so both directly and indirectly helped shape the public language and understanding of Labour.

Tawney's influence has been acknowledged by all shades of Labour thinking on the economy, from Gaitskell to Benn.⁵ To some extent this breadth of appeal followed from Tawney's Christian-based, ethical stance which generated a powerful egalitarian rhetoric appealing to all those who thought of themselves as socialists. Yet this appeal was also paradoxical, for unlike the great majority of British socialists, at least down to the 1950s, he did not regard nationalisation as the defining feature of socialism. Indeed, he observes scathingly 'the idea of some Socialists that private property in land or capital is necessarily mischievous is a piece of scholastic pedantry as absurd as that of those Conservatives who would invest all property with some

kind of mysterious sanctity.’⁶ Rather, his ethical starting-point led him to argue that the key issues for socialists were not ones of ownership, but of conduct and motive.⁷ In an important sense Tawney was a pioneer of British Third Way thinking, as a believer in the mixed-economy, one combining private and public ownership.

This posture is the starting point of our discussion in this paper. Tawney’s scepticism about the British socialist concern, indeed obsession, with ownership meant that he can clearly be placed in the lineage of the Third Way, which has been characterised by rejection of public ownership as a key feature of a desirable society. From this starting point Tawney was able to take seriously issues of corporate organisation (or what would now be called corporate governance) in a way that marks him out as an innovative and unusual figure. The issue of corporate governance is conducive to Third Way thinking because it escapes the dichotomous opposition between public and private ownership, focusing instead on accountability and power within the company. This in turn lends itself to consideration of how the conditions of social justice can be improved, and the public interest secured, within a mixed economy. This strand in his thinking is explored in detail below. On the other hand, his ethical stance, and central emphasis on motive in the analysis of economic life, also poses serious problems, especially in dealing with market relations. The nature of engagement with the market is of fundamental importance to Third Way thinking, and Tawney’s approach is problematic in this respect. This theme is taken up in the second half of the paper.

Capitalism, Function, and Social Justice: An Ethical Basis for the British Third Way?

Tawney's argument in The Acquisitive Society is predicated upon his analysis of capitalist development in the 18th and 19th centuries. Samuel has argued that in his major historical work, Religion and the Rise of Capitalism, and also in The Agrarian Problem in the Sixteenth Century, Tawney 'offered, in essence, a secular version of the Fall, a reverse Utopianism in which commercial forces accomplish the destruction of communal solidarities, and society as a spiritual organism gives way to the notion of society as an economic machine'.⁸ Arguably, a similar, if slightly more nuanced, framework is offered in The Acquisitive Society.

Tawney does not reject private capitalism in all its forms, but rather the specific form which capitalist development has reached at the beginning of the 20th century. Tawney is quite happy to defend private property in the means of production as long as the owner serves a function, and recognises the 'virtues' of private capitalism⁹ as a framework creating a secure entitlement to the fruits of one's own labour. Under such conditions, private property is 'an aid to creative work.' Furthermore, it is 'based on a moral principle ... protected not only for the sake of those who owned, but for the sake of those who worked'.¹⁰ However, Tawney adds an exacting caveat to this endorsement of private capitalism. For Tawney, 'the criterion of commerce and industry is its success in discharging a social purpose.'¹¹ It is capitalism's diminishing success in this regard over the course of the 19th Century which leads him to call so passionately for radical reform of the economic order.

In the second half of the 19th Century, the rise of the joint stock company displaced the individual capitalist from control of the enterprise, creating a new corporate economy. Companies were established as associations having a legal personality separate from their members which raised finance, contracted for various kinds of services, and organised production.¹² With the creation of joint stock

companies, Tawney correctly asserts, a class of passive ‘coupon clipper’ rentiers is created, who do not contribute any labour of any type to the production process. The joint stock company, in Marx’s terms, separates the supply of capital from the ‘labour of superintendence’.¹³

The creation of the modern joint stock company had two significant consequences for Tawney. Firstly, the alleged divorce of ownership from control. His analysis, heavily influenced by Marx, proceeds along lines popularised by Berle and Means ten years later¹⁴, and suffers from the same mild overstatement of the degree of divorce between ownership and control. Much more importantly, but flowing directly from this point, the rise of the joint stock company, Tawney argues, destroys the direct link between function and income. As a result, ownership of property has become detached from economic function, a crucial term for Tawney. ‘Functions’, for Tawney, are ‘to be judged by the success with which they contribute to a social purpose.’¹⁵ Tawney’s moralised notion of ‘social purpose’ is at the heart of his conception of function and enables him to harness ownership of property to a ‘social justification’.

The result of economic development in the era of the joint stock company is rampant individualism, which justifies private property and markets with arguments about property protecting the fruits of labour which are no longer valid. Tawney rejects the laissez faire notion that shareholders’ economic interest is identical to the public interest¹⁶ and with it arguments that the free play of market forces will ‘deliver’ the public good. Applied in his contemporary context, Tawney asserts, such arguments become pernicious. They license unconstrained self-seeking, perverting individualism into ‘industrialism’ which is the assertion of the economic rights of individuals without regard to social purposes.¹⁷ This development means that the

laissez faire defence of private property is no longer appropriate. For Tawney, what has rendered it outdated and irrelevant is above all the evolution of the economic structure. It 'has been refuted not by the doctrines of rival philosophers, but by the prosaic course of economic development'.¹⁸

Tawney, the Company, and the Third Way

The company, then, swiftly became the central institution of the modern capitalist economy, yet it remained a blind spot for most theorists of the British Left in the 20th Century. Corporate governance constituted a potentially extremely promising arena for progressive reformism, which the Left in Britain failed to enter. Tawney stands out as an oasis in a desert of engagement on the Left with the issues of the ownership, regulation and governance of the company. Given Tawney's auspicious foundations, this was a promising opportunity missed with grave consequences.¹⁹

A radical change in industrial capitalism, Tawney argued, could be instituted without eradicating capitalism, or private industrial ownership. Tawney's proposals do not entail wholesale transference of economic activity into public ownership. Indeed 'if in certain spheres [his policy] involved an extension of public ownership, it would in other foster an extension of private property. For it is not private ownership, but private ownership divorced from work which is corrupting to the principle of industry.'²⁰ Public ownership offers no panacea, and '[n]ationalisation,' for Tawney, 'is merely one species of a considerable genus.'²¹ This appreciation of the variety of forms of potential ownership enables Tawney to view the constitution of industry in more nuanced terms. Tawney appreciated that the issue of ownership, control, and accountability within the company are just as pertinent to the public as to the private

sector. He advocated constitutional reform of industry, changing the nature of ownership and control within industrial organisations spanning public and private sectors, and ensuring the regulation of both in the public interest.

As well as a rare detailed study of the optimal structure of the company, *The Acquisitive Society* was an impassioned plea to shift the boundaries between the public and private spheres. Tawney attempts to construct an expanded notion of the public realm, which will encompass and regulate the private economic sphere, rendering all industry 'subject to rigorous public supervision'.²² Tawney's expansion of the public realm aims to create 'the community in the sphere of economic relations,' which Tawney notes, is 'not a fact, but only an aspiration.'²³ His notion of public service and a strengthened public realm would also constitute the most effective, and efficient regulator of capitalism.²⁴ The 'economic processes and results' of all industry must be made public, he argued, to verify 'whether the service of industry is vigilant, effective, honourable, whether its purpose is being realised and its function carried out.'²⁵

The joint-stock company, in contrast, evolved in Britain as a wholly private institution. The exponents of laissez-faire had been unwilling to make concessions in return for the legalisation and institutionalisation of the joint stock company and the huge legal privilege of limited liability. Having given companies a basic framework, it was argued, the State had no desire or business to force on 'these little republics' any particular constitution.²⁶ As a result, the accountability, disclosure provisions, worker representation and governance structures of any particular company became viewed as entirely private matters, and 'every attempt to impose obligations as a condition of the tenure of property or of the exercise of economic activity has been met by uncompromising resistance.'²⁷ For Tawney, this is explained by a predominant

‘absolutist’ notion of property rights traceable to John Locke. Tawney’s expanded notion of public service, and a strengthened public realm, are the battering rams with which he seeks to breach these ideological defences of ‘absolute’ property.

Tawney’s constitutional reform agenda for the company has two key principles. Firstly, in a bid to restore the link between income and function, ‘industry should be subordinated to the community in such a way as to render the best service technically possible, that those who render that service faithfully should be honourably paid, and that those who render no service should not be paid at all.’ Secondly, that industry’s ‘government should be in the hands of persons who are responsible to those who are directed and governed.’²⁸ Thus Tawney seeks to ‘place the responsibility for organising industry on the shoulders of those who work and use, not those who own.’²⁹

‘Absolutist’ proprietary rights have become most iniquitous, in Tawney’s eyes, in an era of joint stock companies where ownership is divorced from control, and where the rentier shareholder performs no function, and therefore warrants no remuneration. For Tawney, the importance of social purpose transforms economic rights ‘from rights which are absolute into rights which are contingent and derivative, because it is to affirm that they may justly be revoked when the functions are not performed.’³⁰ The reforms to proprietary rights which Tawney seeks would render rights conditional, and ‘derived from the end or purpose of the society in which they exist’³¹ thus reconciling the interests of capital holders, and all those within the company, to the public interest.

More specifically, Tawney proposed a fixed (and minimal) rate of return for capital holders, whose ‘proprietary interest may be limited or attenuated to such a degree that they become mere *rentiers*, who are guaranteed a fixed payment

analogous to that of the debenture holder, but who receive no profits and bear no responsibility for the organisation of industry.’³² Any ‘profits’ beyond the minimum return for capital are to be surrendered to ‘a central fund to be administered by employers and workmen for the benefit of the industry as a whole.’³³ This, however, sits in tension with the classic defence of the joint stock company in terms of the market in shares being a way to allocate capital efficiently between alternative uses.

Consideration of the adverse effects on investment, and the fact that the incentive structure would no longer direct funds towards the most productive areas of the economy are marginal to Tawney’s discussion. He asks whether ‘in drawing the teeth of private capitalism, this type of compromise does not also extract most of its virtues as well.’³⁴ In a rare consideration of the motives of the capitalist under his schema, Tawney asks:

‘[w]hat, after all, are the advantages of private ownership when it has been pared down to the point which policies of this order propose? May not the “owner,” whose rights they are designed to protect, not unreasonably, reply to their authors, “Thank you for nothing?”’³⁵

Having succinctly expounded the dilemma, Tawney suggests that in such cases public ownership ‘becomes, not only on social grounds, but for reasons of economic efficiency the alternative.’³⁶ However, the argument does not set out *why* it should be more efficient – nor is it clear how resources are to be allocated (how those ‘virtues’ of private capitalism will be retained), a point we return to below.

This stage in Tawney’s argument is motivated more by his moral critique of private capitalism than by concerns for what he terms ‘mere productive efficiency’. Tawney laments that ‘opinion ceased to regard social institutions and economic activity as amenable, like personal conduct, to moral criteria’³⁷, and the whole book

can be read as an attempt to redress this. In a telling passage, Tawney categorically states, 'either the principle of industry is that of function, in which case slack work is only less immoral than no work at all; or it is that of grab, in which case there is no morality in the matter. But it cannot be both.'³⁸ Many Third Way thinkers have posited some kind of a trade off between economic efficiency and social justice.³⁹ At root, from Tawney's perspective it seems less a trade-off, more a dichotomy between moral and immoral economic efficiency. Tawney is advocating a 'moral economy,' because for him economic activity cannot be wholly divorced from morality.

This hints at the complexity of Tawney's position. There is, underpinning his case, a plea for a fundamental reorientation of society, a 'remoralisation' of motives within the economic sphere, and a root and branch re-organisation of industry. This is Tawney's utopian vision, and he freely concedes 'such a society does not exist, even as a remote ideal, in the modern world.'⁴⁰ Tawney was also, to an extent, a Utopian socialist in Marx's sense.⁴¹ His identification of morality and motive as telling, and his eschewal of a Marxian concentration on private property, meant that, for Tawney, the process of re-ordering society could begin from within capitalism. Thus, as well as harbouring aspirations for how he wished to see society re-ordered, he was deeply engaged in practical measures to begin re-organising particular industries.

Tawney could cogently hold such a position precisely because he saw motive and morality, not private property, as the real barriers to a socialist society. Far-reaching, yet piecemeal, reform of aspects of the economic structure (most notably the company) *within* capitalism could plausibly have sufficient purchase over *these* barriers to a transition to socialism, overcoming the dichotomous opposition between reformism and revolution.

In numerous concrete cases, Tawney engages with subtlety with the competing claims of social justice and economic efficiency in a manner less dogmatic than the tone of his overall moral case. Here the economic argument is rooted in a political argument about the (re)distribution of power, responsibility and the fruits of labour within the company. The mining industry is a recurrent reference point for Tawney, and he revisits the evidence and findings of the Sankey commission on which he sat. For example, Tawney advocates consumer representation on a Nationalised coal board (advocated by Sankey himself) as a spur to efficiency and a bar to overpricing⁴² and because of the enhanced publicity which such consumer representation would generate. The Miners Federation would, in turn, 'be able to appeal to their results as evidence that a change of methods ... [is] justified by the increase in economy or efficiency which it would produce.'⁴³

Tawney reminds us that the Sankey Commission on the nationalisation of the coal mines noted that empowering workers within coal mine committees can be a means of unearthing and calling to account inefficient management. Miner's organisations must be granted enhanced responsibilities, empowered to 'insist on the removal of the defects of equipment and organisation, the shortage of trams, rails, tubs and timber, the 'creaming' of the pits by the working of easily got coal to their future detriment'.⁴⁴ Tawney also reiterates Sankey's noting of the results in terms of low productivity of the psychological effects on the miners of the constitution of the industry whereby enhanced effort merely accrues to shareholders dividends, not miners' wages.⁴⁵

Tawney notes that practices akin to his recommendations were both recommended by a report of the Industrial Council of the Building Industry⁴⁶ and indeed had been established by the Manchester and London building guilds, whose

aim 'is not profit, but the provision of good houses at a reasonable price'.⁴⁷ These guilds had 'superseded' the capitalist employer by organising the industry as a whole, 'not, like a trade union, for the defence of economic rights, but for the discharge of professional duties.' They aim not at extracting a large surplus, and what surplus there is 'cannot be distributed as dividends, but must be used for the improvement of the service'.⁴⁸ Tawney applauds a precursor to The Living Wage whereby 'the body for whom the work is performed shall pay a sum which is sufficient to keep men "on the strength," when, through no fault of their own, there is no work for them to do.'⁴⁹ Tawney perhaps ultimately asserts the functionality of his reordered economy, believing that fair is efficient,⁵⁰ but he substantiates his assertion with some empirical evidence, albeit drawn largely from these two industries whose structure and conditions Tawney notes is atypical.⁵¹

The character of Tawney's argument is thus complex. It is built upon strong moral foundations, but is not exclusively moralistic, and also remains rooted to notions of incentive and efficiency within the economy. Although he is rather condescending in his discussion of 'mere efficiency' arguments, he nevertheless frequently engages in them to justify each of his propositions for industrial reorganisation. Tawney notes, 'there is no more fatal obstacle to efficiency than the revelation that idleness has the same privileges as industry, and that for every additional blow with the pick or hammer an additional profit will be distributed among shareholders who wield neither.'⁵² His concern for a reorganisation of power and accountability within industry is justified in similar terms. In the absence of a worker having a stake in the control of industry, 'if he hews his stint of coal, it is no business of his whether the pit is a failure; if he puts in the normal number of rivets, he disclaims all further interest in the price or the seaworthiness of the ship.' Only

giving workers a role in ‘governing’ industry, he argues, will induce ‘a responsibility for the success of the undertaking as a whole.’⁵³ Enforcing greater publicity, and public supervision, is also justified in terms of ‘the gain in [worker’s] morale which is also, absurd as it may seem, a condition of efficiency’.⁵⁴

The attenuation of existing proprietary rights is, Tawney argues, ‘an indispensable element in a policy of economic efficiency.’ This is for two reasons. Firstly, because ‘intensification of effort as long as part of its result is increased dividends for shareholders’ is ‘as far as mere efficiency is concerned, the gravest indictment of the existing industrial order.’ Secondly, and more generally, the absence of such a change foregoes ‘the stimulus to efficiency springing from the corporate pride of a profession which is responsible for maintaining and improving the character of its service... *esprit de corps* is the foundation of efficiency’.⁵⁵ In a manner reminiscent of more recent Third Way thinking,⁵⁶ Tawney argues that empowering the workforce *within* the company confers not just rights, but also responsibilities for the success of the concern. This will prove beneficial to efficiency, since ‘fuller responsibility, larger powers for the sake of the producer as a condition of economic freedom – is not antithetic to the demand for more effective work and increased output ... it is complementary to it’.⁵⁷

Underlying the analysis is Tawney’s sense that ‘economic incentives’ are necessary but insufficient motives for economic activity. For him, ‘higher’ motives must be the real driving force behind economic activity as he conceives it; ‘while economic reasons exact the minimum degree of activity required to avoid dismissal from it or “failure”, the actual level of energy or proficiency displayed depends largely upon conditions of a different order.’⁵⁸ It is for this reason that Tawney argues ‘we need to radically revise the presuppositions as to human motives on which current

presentations of economic theory are ordinarily founded'.⁵⁹ Focussing exclusively on 'economic incentives' presents an incomplete picture, and this explains Tawney's suspicion of mainstream economics.⁶⁰

These misgivings inform a deep suspicion of market forces, and the desire to transcend the 'economic incentives' in search of some 'higher' criteria. Tawney bemoans 'the vulgar subordination of moral standards to financial interests' and identifies 'a principle superior to the mechanical play of economic forces'.⁶¹ For him, 'the principles on which its economic order is founded should justify themselves to the consciences of decent men'; his concern is with 'the moral standard by which [industry's] organisation should be tried.'⁶² Nevertheless, Tawney justifies his programme on both moral and 'economically rational'⁶³ grounds, addressing at times the incentives driving economic decision-making, and (to a degree) how his proposed modifications will affect them.

Tawney and the Market

Like Tawney's discussion of corporate governance, his approach to the market must be put in historical context. The key period here is the 1920s, when many of the ideas that were to dominate Labour thinking down to at least the 1950s were established. Thompson has usefully analysed the debates of that decade around the opposition between the anti-market views of the Fabians and the more nuanced views of J.A. Hobson.⁶⁴ He sets out three main areas of disagreement between the two about the desirability of allowing market forces a major role in shaping the economy.

First is the Fabian hostility to markets grounded on notions about the waste created by competition, both from the replication of activity in competing units and

the inevitable element of speculation involved in producing for markets. This attitude led to Fabian writers showing a notable enthusiasm for ‘trusts’ and monopolies, which were seen as embodying efficient production methods, but leading to unacceptable patterns of income distribution. Hobson’s objection to this line of argument was that, while agreeing that monopolies, where present, should indeed be nationalised for distributional reasons, they did not represent, as Fabians suggested, the pinnacle of productive efficiency. Rather, they should be viewed as a passing phase in the evolution of capitalism, linked to homogenous demand and mass production, to be displaced by smaller scale production as incomes rose and consumer demands became more differentiated. In this future phase competition between smaller units would be both technically efficient and desirable.⁶⁵

Second, Fabians put little store by the desires of consumers. For them, consumers were likely to be ill-informed about their ‘true’ needs, misled by advertising, and in any event consumption was an over-rated human activity. Hobson, on the contrary, saw consumer’s desires as more legitimate, and in particular saw consumption as an agent of aesthetic and moral advance, with more sophisticated and differentiated consumption demand feeding-back into less mechanical and more craft-based forms of production.⁶⁶

Third, the Fabians assumed that the ‘motive of service’ would be all the incentives needed by producers under a socialist regime, while Hobson regarded such assumptions as Utopian, and believed that monetary incentives would play some role in any functioning economy. The market, he argued, has positive virtues, bringing constraints, discipline and incentives to bear on individual behaviour, and along the way imposing an orderly basis of co-operation.⁶⁷

These arguments underpinned the debates between Fabians and Hobson in the 1920s, debates from which the Fabians emerged successful. In particular, these Fabian arguments were an important element in the defeat of the main policy challenge from the Left, the 'Living Wage' proposals of the ILP, which were grounded in an expansion of working-class consumption as central to a strategy of macro-economic revival and the reduction of unemployment. The search for new directions in economic policy was in significant part stymied by these Fabian predilections.⁶⁸

While Tawney's work has important affinities in some respects with Hobson, whom Tawney regarded as an 'unjustly neglected prophet',⁶⁹ he effectively sides with the Fabians in all three of these areas of dispute over the market noted above. First, Tawney shared most of the Fabian notions about the economy, including the 'wastefulness' of competition. For example, he wrote of marketing costs, especially 'advertisement and competitive distribution' as 'pure loss' to the consumer.⁷⁰ Like the Fabians, Tawney also saw an ineluctable tendency for this competition to be succeeded by monopoly under capitalism as noted in the previous section, though he tended to focus on the 'psychological' inhibitions this put on worker morale and efficiency rather than the 'technical' (economies of scale) efficiency combined with distributive inequities that Fabians were likely to see as the major consequences.⁷¹

Second, Tawney had little enthusiasm for consumption. His proclaimed asceticism was heartfelt.⁷² It was crucial to his critique of the Acquisitive Society that, in the absence of any overriding principle governing conduct, such a society produced an insatiable desire for more goods on the part of both capitalist and worker, but 'nothing short of infinity could bring them satisfaction'.⁷³ At a less elevated level of argument this attitude produced denunciations of the 'pouring of resources' into

‘picture-houses’, the cinema being indeed a favourite target of socialist displeasure with the consumption habits of the workers.⁷⁴

Third, as we have noted above, it was central to Tawney’s thought that economic incentives should play little role in the economy. He argued that in practice such incentives only lead to minimum acceptable standards, and that even in existing society other, non-pecuniary motives are highly important.⁷⁵ His ideal of socialism was turning every job into a profession, the incentive to efficiency coming from professional pride. His model of the worker of the future was the doctor.⁷⁶

As far as Thompson’s three arguments about markets are concerned, Tawney was clearly on the side of Fabian anti-market sentiment against the more differentiated approach of Hobson. But to picture Tawney as simply a supporter of the Fabians in this context is hardly adequate, because, for Tawney, these three specific anti-market sentiments were part of a wider set of arguments against modern capitalism, called by him the ‘Acquisitive Society’, and to understand the full force, as well as the problems with his anti-market sentiments, we need to look at that these arguments in the round.

For socialists of all types, Adam Smith’s work, and above all his doctrine of the invisible hand, is perhaps the central intellectual challenge to understanding capitalism, and one which must be grappled with. It would not be too much to say that a large part of the economics of modern socialism has been an attempt to refute Smith’s arguments. But for ethical socialists like Tawney, Smith is an especial problem, because it is integral to the doctrine of the invisible hand that we can wholly detach individual motives for action from outcomes; the public good emerges as the unintended consequence of self-regarding actions. For the socialist, like Tawney, who wants to define socialism in large part as the re-moralisation of motives, it is

crucial to surmount the Smithian problem. Tawney indeed tries to do so; Smith and the invisible hand are frequent reference points in The Acquisitive Society. One could say that the implicit subtitle of the book is ‘a critique of the invisible hand doctrine and its consequences’.

Tawney’s strategy in this critique is to ‘historicize’ Smith. He argues for the largely beneficial and progressive nature of Smith’s work in the historical context in which it was produced. In the circumstances of eighteenth century state-sponsored monopoly, Smith and his allies, Tawney argues:

‘represented all, or nearly all, that was humane and intelligent in the mind of the age. It was individualistic, not because it valued riches as the main end of man, but because it had a high sense of human dignity, and desired that men should be free to become themselves’.⁷⁷

This historical locating of Smith and similar thinkers is simultaneously a defence of their work and a claim about its contemporary irrelevance: ‘It is as absurd to criticise them as indifferent to the evils of a social order they could not anticipate, as to appeal to their authority in defence of it’.⁷⁸

For Tawney, what has rendered the invisible hand outdated and irrelevant is above all the evolution of the economic structure, using that term in two senses. First, as noted above, is the creation of the modern joint stock company, and the alleged consequence of a divorce of ownership from control. This development means that private property as defended by Smith, that is as a framework creating a secure entitlement to the results of one’s own labour, is no longer appropriate. Second, this new institution of the joint stock company has facilitated the rise of monopoly and trusts, and it is this which has fatally undermined the relevance of the invisible hand theorem: ‘The principle upon which our society professed to be based for nearly a

hundred years after 1789 - the principle of free competition - has clearly spent its force', and we can 'no longer retain the illusion that the consumer is protected by the rivalry of competing producers'. The choice is not between competition and monopoly, 'but between a monopoly which is irresponsible and private, and a monopoly which is responsible and public'.⁷⁹

There are two ways of assessing Tawney's assertion that Smith's arguments are essentially outdated by the 1920s. One is to look at the evidence on changes in economic organisation which Tawney believes have undermined the relevance of Smith's points, and whether they did indeed have the implications suggested. The second is to ask whether Smithian arguments are adequately encapsulated in Tawney's treatment, and whether he deals adequately with the Smithian defence of markets.

First on the issue of the rise of joint stock company. As noted above, Tawney sees them as destroying the direct link between function and income. The difficulty here is that 'function' is used in a moral rather than an economic sense; it provides no clear basis for remuneration, because while the targets of Tawney's wrath are clear (landlords, speculators, absentee capitalists), in other cases the classes deserving remuneration are vague.⁸⁰ Indeed, as Collini argues, Tawney's notion of the functional society is not only unpersuasive but also 'potentially coercive. Tawney simply ducks the hard questions about the authoritarianism in deciding which activities constitute desirable "functions" and which do not'.⁸¹ By conceiving the issue in a purely individualistic moral sense, Tawney ignores the concept of 'functionality' in a broader, economic sense. The classic defences of the joint stock company in terms of ability to raise more capital from a wider range of sources, with security for the investor, and the idea that the market in shares is a way to allocate

capital efficiently between alternative uses are not argued against by Tawney, but are wholly absent from his discussion. Because, for him, function is related solely to individuals' conduct, it cannot deal with institutional relations and the functionality they may have for the system as a whole.

The second empirical argument concerns the effects of 'monopoly'. The belief that monopoly has undermined invisible hand and pro-capitalist arguments has served many socialists as well as Tawney; it is one of the most favoured rhetorical devices of socialists in economic argument. For example, it was, in this period, a key part of Snowden's speech in the famous attempt in 1923 to get a parliamentary motion condemning capitalism.⁸² But the argument is certainly more complex than Tawney allows. There is, to start with, of course, substantial variation in the meaning ascribed to the term monopoly, which has been used by socialists in three different senses. The first is the use of monopoly as the defining feature of capitalism, involving a majority of property-less workers confronting an owning class who monopolise the means of production. The second is the peculiar Fabian notion of monopoly, as the general structure of income receipts reflecting the fact that all income receivers obtain a monopoly rent from the shortage of the factor they supply (the generalisation of the Ricardian theory of rent). The third sense of the term is the orthodox economist one, where monopoly describes the control of producers over markets, and where their ability to limit competition raises profits.⁸³

While Tawney sympathised with the specifically Fabian notion of monopoly, in the context of the invisible hand, and its alleged refutation, it is the third of these senses of monopoly which is deployed. Thus Tawney argues that: 'No one who reads the Reports of the Committee on Trusts appointed by the Ministry of Reconstruction and of the Committees set up under the Profiteering Act upon soap, or sewing cotton,

or oil, or half-a-dozen other products, can retain the illusion that the consumer is protected by the rivalry of competing producers'.⁸⁴ But this is a poor casual empiricism on which to found such a sweeping conclusion about the extent of competition in the economy. Of course, as always (and as Smith himself famously emphasised) producers are always attempting to monopolise, but as a broad generalisation it would be right to say that their success rate in early twentieth century Britain was usually low. In the 1920s a key factor in determining how much competition British firms faced was the almost unqualified continuation of free trade, which prevented monopolies effectively establishing themselves in most industries, and this is clearly shown in aggregate profit levels, which were depressed throughout the decade.⁸⁵ Tawney, like so many others, tended to confuse both monopolistic ambition and outcome, and scale with monopoly; the undoubted trend towards larger producer units with effective monopoly of markets.⁸⁶

These empirical issues should be set alongside the question of the analytic adequacy of Tawney's account of Smith's arguments. Tawney argues that Smith was a defender of individual self-interest, without exploring what exactly that highly elastic term might mean (there are no direct citations to Smith's work at all in The Acquisitive Society). There are great difficulties inherent in assessing Smith's arguments, and a huge literature devoted to this purpose, especially to what has become known as 'the Adam Smith problem', but as minimum it should be noted that in The Theory of Moral Sentiments (where he develops the idea of unintended consequences which lies behind the famous term, the 'invisible hand'), Smith made much of the argument that self-regarding individuals would have as one of their concerns the regard of others. He discussed in detail the concept of 'sympathy' (close to what we today would call empathy) as a key element in allowing us to understand

how others saw us, and how we can increase their regard for us. In this way individuals would, for their own purposes, do things which would improve this regard, so that Smith's individualism was not restrained simply by law but by a complex code of moral assumptions about what would increase the regard of others.⁸⁷ Such arguments are a clear and direct challenge to Tawney's simple dichotomy of self-regarding actions versus those with a social purpose. But, again, they are ignored by Tawney.

In revolving around a simple dichotomy between a 'golden age' when all actions, including economic actions, were guided by a higher social purpose (religiously inspired), and self-regarding actions, Tawney's account of Smith fails to come to terms with another key part of Smith's position. Smith's argument builds on earlier eighteenth-century assertions that in commercial society, self-interested actions displace 'passions', and hence he argues, what is lost is not Tawney's world of actions motivated by the collective good. Instead, 'commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors'.⁸⁸

The point at issue here is not that Smith's arguments about the invisible hand are in some transcendent sense 'right', but that Tawney's treatment of them misleads as to their sophistication. By not confronting them in a serious manner, Tawney reinforces a simple-minded moralism about markets which was a poor legacy for the Left.

How stands Tawney in relation to the Third Way?

Tawney's legacy has to an extent shaped the development of Third Way thinking about the economy in Britain. His ethical basis for a British Third Way retains a certain pertinence to the establishment of Third Way values, as recognised by contemporary protagonists.⁸⁹ However, its analytical value as a basis for theoretical critique and programmatic advocacy for British Third Way economic thinking is more problematic.

For example, Tawney's failure to engage constructively with the market – whilst at the same time accepting an enduring role for private property, and capitalism, leads to something of an impasse for Third Way thought. The fault is by no means entirely Tawney's. He identified a number of promising avenues – such as the fundamental reorganisation of corporate governance arrangements. Tawney stands almost alone among the inter-war British Left as a thinker who engaged seriously with the issues of the ownership, regulation and governance of the company. At the 'micro' level, Tawney perceptively eschews the nationalisation as panacea trap, and provides a number of cogent proposals for re-organisations of particular industries, drawing on experience, particularly in relation to the nationalisation of the coalmines and the reform of the building guilds. No one took up the cause of industrial reorganisation, and Tawney's ideas were not seriously engaged with for fully 70 years on the British Left. There was a brief moment when the discussion of 'stakeholding' in the mid-1990s might have opened up this issue, but here the electoral politics of the Third Way seem to have precluded radical thinking on Tawneyesque lines.

However, at the 'macro' level, there is a 'blind spot' in Tawney's approach, a lack of willingness to look at the economy as a whole. For example, the effects on the

economic system as a whole of Tawney's proposed reorganisation of capital markets to provide a fixed 'debenture' income are not fully explored. Tawney's account of the desirable features of a future economy focuses almost entirely on corporate reorganisation, with only an aside on the desirability of a 'Planning Department'.⁹⁰ More generally, as Wright argues⁹¹, he failed to respond seriously to the anti-planning arguments already emerging in the 1940s, and when in 1951 he wrote his epilogue to Equality, assessing the progress made in 1938-1950 there is astonishingly little on ideas about planning which so dominated Left thinking in those years. Tawney retains undented faith in the allocative ability of public bodies, and for him this conviction holds 'until it is proved beyond doubt that it is impossible for the productive work of the world to be organised upon methods more dignified and rational than those of the gambling saloon.'⁹² In his attitude to the capacity of the state to allocate resources effectively, Tawney reinforced the almost unanimously positive view of British Socialists. This mental furniture was not seriously disturbed until the current Third Ways' fundamental questioning of state capacity.⁹³

Therefore Tawney's legacy for the development of the British Third Way has been to a degree paradoxical. Where he was heterodox but arguably most progressive in his thinking was in relation to the company, yet he has had little impact on subsequent discussion. Conversely, where Tawney was least constructive in his thinking, in relation to markets, his work acted to reinforce entrenched positions on the Left which remained largely intact until confronted head on by Third Way thinkers in the 1990s.

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- ¹ W. H. Greenleaf The British Political Tradition vol. 2 the Ideological Heritage (London: Methuen 1983), pp. 439-63; N. Dennis & A. Halsey English Ethical Socialism (Oxford: O. U. P. 1998); A. Wright, R. H. Tawney (Manchester: M.U.P. 1987); S. Collini, English Pasts (Oxford: O.U.P. 1999).
- ² R. H. Tawney, The Acquisitive Society, (London: Collins, 1961 [1921]), p. 1.
- ³ R. H. Tawney, Equality (London: Allen and Unwin, first published 1931, fifth edition 1964).
- ⁴ R. H. Tawney, Religion and the Rise of Capitalism (London: John Murray, first published 1926, second edition 1937).
- ⁵ D. Ormrod, Fellowship, Freedom and Equality: Lectures in Memory of R. H. Tawney (1990); H. Gaitskell 'An Appreciation' in R. Hinden (ed.) The Radical Tradition (London: Allen and Unwin, 1964), pp. 211-214.
- ⁶ Tawney, op. cit., Ref. 2, p. 82
- ⁷ Ibid., pp. 96-8; Tawney, op. cit., Ref. 3, pp. 181-7
- ⁸ R. Samuel, Island Stories: Unravelling Britain's Theatre of Memories Vol II (London: Routledge, 1998), p.240; R.H. Tawney, The Agrarian Problem in the Sixteenth Century, (London: Longmans, Green and Company 1912).
- ⁹ Tawney, op. cit., Ref. 2, p. 122.
- ¹⁰ Tawney, ibid., p. 56.
- ¹¹ Tawney, ibid., p. 29.
- ¹² See B.C. Hunt The Development of the Business Corporation in England 1800-1867 (Cambridge Mass.: Harvard University Press, 1936); L. Hannah The Rise of the Corporate Economy (London: Methuen, 1983); and L. Tivey The Politics of the Firm (Oxford: Martin Robertson, 1978).
- ¹³ As Stuart MacIntyre, A Proletarian Science: Marxism in Britain 1917-1933 (Cambridge: Cambridge University Press, 1980), p.147 notes, discussing this period, 'the Marxist critique of capitalism had considerable impact on the rest of the Labour movement' and this is certainly true of Tawney. His discussion of monopoly (see below) is on the same lines as that of Britain's most important Marxist economist, Maurice Dobb, who in his Capitalist Enterprise and Social Progress (London: Routledge, 1925) argued that in modern monopolistic conditions the capitalist entrepreneur no longer performed a useful function which required private ownership of the means of production.

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- ¹⁴ A. Berle and G. C. Means' classic The Modern Corporation and Private Property (New York: Macmillan, 1933).
- ¹⁵ Tawney, op. cit., Ref. 2, p. 28.
- ¹⁶ Tawney, ibid., p. 93.
- ¹⁷ Tawney, ibid., p.47.
- ¹⁸ Tawney, ibid., p.70.
- ¹⁹ See B. Clift 'Social Democracy, the Company, and Public Interest in the UK 1918-1945' (Sheffield: PERC Research papers No. 1, 1999); and B. Clift, A. Gamble and M. Harris 'The Labour Party and the Company' in J. Parkinson, A. Gamble & G. Kelly (eds) The Political Economy of the Company (Oxford: Hart, 2000).
- ²⁰ Tawney, op. cit., Ref. 2, p. 82.
- ²¹ Tawney, ibid., p. 97.
- ²² Tawney, ibid., p. 92.
- ²³ Tawney, ibid., p. 134.
- ²⁴ A developed notion of public service and the public realm (and the spirit of 'profession') would, Tawney claimed, provide by far the most efficient system for regulating industry, and would avoid 'what is mechanical and obstructive in bureaucracy ... industry cannot run without laws. It must either control itself by professional standards, or it must be controlled by officials' (Tawney, ibid., p. 149).
- ²⁵ Tawney, ibid., p. 126.
- ²⁶ Hunt, op.cit., Ref.12, p. 135.
- ²⁷ Tawney, op. cit., Ref. 2, p. 26.
- ²⁸ Tawney, ibid., pp. 13-14.
- ²⁹ Tawney, ibid., p. 81.
- ³⁰ Tawney, ibid., p. 29.
- ³¹ Tawney, ibid., p. 48.
- ³² Tawney, ibid., p. 97.
- ³³ Tawney, ibid., pp. 101-102.
- ³⁴ Tawney, ibid., p. 122.
- ³⁵ Tawney, ibid., p. 122.

³⁶ Tawney, ibid., pp. 122-123.

³⁷ Tawney, ibid., p. 17.

³⁸ Tawney, ibid., 133-134.

³⁹ For example, A. Crosland tackled head-on these competing objectives in rather more technocratic terms in The Future of Socialism, (London: Cape 1956), pp. 215-217; and see, more generally, N. Ellison Egalitarianism and Labour's Political Thought (London: Routledge 1994), p. 210.

⁴⁰ Tawney, op.cit., Ref. 2, p. 31.

⁴¹ See David McLellan, Karl Marx: Selected Writings (Oxford: O.U.P. 1977), pp.243-245.

⁴² Tawney, op.cit., Ref. 2, p. 127.

⁴³ Tawney, ibid., p. 157

⁴⁴ Tawney, ibid., pp. 149-150.

⁴⁵ Tawney, ibid., p. 143.

⁴⁶ Tawney, ibid., p. 101-2.

⁴⁷ Tawney, ibid., p. 99.

⁴⁸ Tawney, ibid., p. 99.

⁴⁹ Tawney, ibid., p. 99. See also p. 141. On the Living Wage see further below.

⁵⁰ For a relatively recent incarnation of such a position, see G. Brown Fair Is Efficient : a Socialist Agenda for Fairness (London: Fabian Society 1994), pamphlet no. 563.

⁵¹ Tawney, op. cit., Ref. 2, p. 100.

⁵² Tawney, ibid., p. 78. See also p. 102.

⁵³ Tawney, ibid., pp. 129-130.

⁵⁴ Tawney, ibid., p. 128

⁵⁵ Tawney, ibid., pp. 146-148

⁵⁶ See Anthony Giddens, The Third Way (Cambridge: Polity 1998), p. 65-6; Anthony Giddens, The Third Way and its Critics (Cambridge: Polity 2000), pp. 149-153; and also Hugh Collins 'Is There a Third Way in Labour Law?' in Anthony Giddens (ed.), The Global Third Way Debate (Cambridge: Polity 2001), pp. 303-308.

⁵⁷ Tawney, ibid., p. 145

⁵⁸ Tawney, ibid., p. 153

⁵⁹ Tawney, ibid., p. 157

⁶⁰ This questioning of the foundational assumptions of neo-classical economics has subsequently proved a rich vein of theoretical critique and programmatic advocacy for progressive economists. A classic in this genre is A. K. Sen 'Rational Fools: A Critique of the Behavioural Foundations of

Economic Theory', in Sen, Choice, Welfare and Measurement (Oxford: Oxford University Press, 1982).

⁶¹ Tawney, op. cit., Ref. 2, pp. 92 & 40.

⁶² Tawney, ibid., p. 13.

⁶³ As already noted, his understanding of economic rationality departs from that of the economics textbook.

⁶⁴ N. Thompson, 'Hobson and the Fabians: Two Roads to Socialism in the 1920s', History of Political Economy 26 (1994), pp.203-220; idem., The Market and its Critics (London: Routledge, 1988), pp.262-6. For more general treatments of Hobson see M. Freeden (ed), J. A. Hobson: a Reader (London: Unwin Hyman, 1988), and P. Clarke, Liberals and Social Democrats (Cambridge: Cambridge University Press, 1978), ch. 7.

⁶⁵ Thompson, ibid., 'Fabians', pp.204-8.

⁶⁶ Thompson, ibid., pp.208-10.

⁶⁷ Thompson, ibid., pp.210-11.

⁶⁸ On Labour's economic policies in the 1920 see, in addition to Thompson, A. Booth, 'The Labour Party and Economics between the Wars', Bulletin of the Society for the Study of Labour History 47(1983), pp.36-42; A.Booth and M. Pack, Employment, Capital and Economic Policy (Oxford: Blackwell, 1985), ch.1. The Living Wage issue became inextricably entangled with the dispute about family allowances, which aroused great trade union hostility. See L. Macnicol, The Movement for Family Allowances 1918-1945: a Study in Social Policy Development (London: Heinemann, 1980), pp.138-49.

⁶⁹ Tawney, op. cit., Ref. 2, p. 56. See also M. Freeden, Liberalism Divided: a Study in British Political Thought 1914-1939 (Oxford: Clarendon, 1986), pp.313-315. Undoubtedly Tawney was closer to the decentralised forms of socialism, such as guild socialism, than to the more centralizing ideas of the Webbs. Equally, in the area of macroeconomic policy, Tawney recognised from Hobson the importance of effective demand, expressed underconsumptionist leanings, and endorsed a precursor to The Living Wage. See Tawney, op.cit., Ref. 2, pp. 38-9 & 140-141 respectively.

⁷⁰ Tawney, op. cit., Ref. 2, p.171; see also D. Riesman, State and Welfare: Tawney, Galbraith and Adam Smith (London: Chatto and Windus 1982), pp.108-111.

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- ⁷¹ Tawney, ibid., p.144
- ⁷² Dennis and Halsey, op.cit., Ref. 1, p.199; J. Winter and D. Joslin (eds), R.H. Tawney's Commonplace Book (Cambridge: Cambridge University Press, 1972), p.18.
- ⁷³ Tawney, op. cit., Ref. 2, p.41.
- ⁷⁴ Hinden, op.cit., Ref. 5, p.150; A. Bevan, In Place of Fear (London: Heinemann, 1952) Ch.4; Samuel, op.cit., Ref. 8, p.249.
- ⁷⁵ Tawney, op. cit., Ref. 2, pp.153-5.
- ⁷⁶ Tawney, ibid., pp.147-8, 151; Riesman,op.cit., Ref. 70, pp.108-111.
- ⁷⁷ Tawney, ibid., p.23.
- ⁷⁸ Tawney, ibid., p.23.
- ⁷⁹ Tawney, ibid., p.178. See also Tawney, op.cit., Ref. 3, pp.161, 173-4; Labour and the Nation (London: Labour Party 1928), p.23.
- ⁸⁰ Riesman, op.cit., Ref. 70, pp.114-7.
- ⁸¹ Collini, op.cit., Ref. 1, p.189.
- ⁸² P. Snowden, House of Commons Debates, 20 March 1923, cols. 2480-81.
- ⁸³ Thompson, The Market, Ref. 64, pp.250-54.
- ⁸⁴ Tawney, op. cit., Ref. 2, p.178.
- ⁸⁵ J. Tomlinson, Government and the Enterprise Since 1900: the Changing Problem of Efficiency (Oxford: Oxford University Press, 1994), pp.94-7.
- ⁸⁶ J. Tomlinson, The Unequal Struggle? British Socialism and the Capitalist Enterprise (London: Methuen, 1982); Hannah, op.cit., Ref. 12, p.160.
- ⁸⁷ J. Viner, 'Adam Smith and Laissez-faire', in J.C.Wood (ed), Adam Smith: Critical Assessments, Vol. 1 (London: Edward Elgar, 1984), pp.143-67; T. Wilson, 'Sympathy and Self-Interest', in T. Wilson and A. Skinner (eds), The Market and the State: Essays in Honour of Adam Smith (Oxford: Clarendon, 1976), pp.73-99.
- ⁸⁸ Smith, Wealth of Nations, cited in A. O. Hirschman, The Passions and the Interests: Political Arguments for Capitalism before its Triumph (2nd ed. Princeton: Princeton University Press, 1997), p.100.

⁸⁹ 'Since the collapse of communism, the ethical basis of socialism is the only one that has stood the test of time.' Blair, Socialism, Fabian Pamphlet 565, p.3 .

⁹⁰ Tawney, op. cit., Ref. 3, p. 181.

⁹¹ Wright, op. cit., Ref. 1, pp. 113, 140.

⁹² Tawney, op. cit., Ref. 2, p. 108.

⁹³ There was a brief flurry of interest in 'market socialism' in Britain in the 1980s, but it soon died away. See, for example, S. Estrin and J. Le Grand, Market Socialism (Oxford: Clarendon, 1989).